

Statement
TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS
Presented August 11, 2005 by TRS Board Vice President Molly Phalen
Presented August 12, 2005 by TRS Board President Dr. Randy Dunn

It is customary at each meeting of the Board or a committee to allow time for public comment, and we will, of course, honor that tradition. We look forward to your remarks. Given the volume of business before the Board; *we will only be able to set aside 30 minutes for public comments August 11 and will take all comments at the investment committee meeting. We ask that each speaker limit his or her comments to 3 minutes. An additional hour of public comment will be provided on Friday morning during the Board meeting.*

The events of the past few weeks make it necessary that we begin this meeting by first speaking from the heart to our friends, members, beneficiaries, staff, and valued associates.

We share a collective and deeply felt sense of anger, shock, and disgust over the actions alleged in the indictments of two former TRS trustees, a former external counsel, and a former employee of a private equity partnership in which the System has invested. In a formal statement earlier this month, we termed the actions "reprehensible," using the strongest language polite society permits.

We know that you share these intense feelings and that you may even feel betrayed. As the [Vice] President of the Board and on behalf of the entire retirement system, I apologize sincerely to each and every one of you. While we had no knowledge of the misconduct alleged--and we certainly did not participate--there is no question that the allegations are a discredit to the persons charged who had fiduciary duties to the System to act honestly and fairly in all matters involving the Board.

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Let's set one big item straight. Headline writers have called this an investigation of TRS. It is not! It is an investigation of persons who allegedly misused their position of trust and fiduciary duty to TRS for their own purposes and for their own personal gain. If any of what we have heard and read is substantiated in court, these individuals hijacked our good name and reputation and that is grounds for justifiable anger. It is a crime against the educators of Illinois; we, together, are the victims.

Chicago Sun-Times columnist Mark Brown hit the nail on the head when he called the indictments "the newly revealed scheme to defraud the Teachers' Retirement System." The leadership of your fund is heartsick about these allegations that the columnist described as a "one-man, white collar crime wave." We feel victimized and truly saddened that the members we work to serve honestly must even hear allegations of this type.

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The U.S. Attorney's office has scrutinized several investments that have come into question. In all cases, the investigators and TRS agree that no losses have occurred. I will repeat that. There is no reason whatsoever to think that any of the investments will produce a loss based on the alleged misconduct. This is not surprising, because we screen our investments carefully to minimize investment risk and to maximize our returns. We are proud of our investment record. Few funds in the United States can claim that their investment returns are in the top 20% for the last quarter, the last year, the last three years, the last five years and the last ten years. In the investment world, this is as good as it gets. As we reach our regular agenda, you will hear more about this good news.

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Members have called asking why they first heard about the investigation from the news media. There is a good reason.

When federal prosecutors first approached TRS for assistance and information, they asked us to maintain the confidential nature of the investigation. As good citizens, we immediately agreed to cooperate and to supply information. When we said, "Yes," we meant, "Yes," and we kept our word.

To reiterate, the U.S. Attorney is in charge of the investigation and we intend to keep it that way. At the same time, we will take any and every step that a responsible guardian of your retirement security would do to safeguard your retirement system pursuant to our fiduciary duty to our members to conduct the System honestly and fairly so as to maximize our trust fund value.

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In closing, I will summarize as follows:

1. The actions alleged are reprehensible. They are contrary to everything for which we stand as a Board and as a staff.
2. We will keep our standards high. Our due diligence process rejected weak investments that were part of the schemes. In another case, we hired a firm that refused to make payments that would have been improper. There are many honest firms and individuals in the marketplace and we will continue to seek them out.
3. We will learn from this experience. We stand as guardians of your retirement security, so if weaknesses are found, we will fix them. If our process needs improvement, it will be improved.